CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE

July 22, 1998

H.R. 2676
Internal Revenue Service Restructuring and Reform Act of 1998

As cleared by the Congress on July 9, 1998

SUMMARY

H.R. 2676 would make a number of changes to the management and oversight of the Internal Revenue Service (IRS), add or amend about 70 taxpayer rights, and require the IRS to implement several changes designed to increase the number of forms filed electronically by taxpayers. In addition, the legislation would make technical corrections to the Transportation Efficiency Act for the 21st Century (TEA 21), which was enacted on June 9, 1998 (Public Law 105-178).

The Joint Committee on Taxation (JCT) estimates that enacting H.R. 2676 would increase governmental receipts (revenues) by $600 million in fiscal year 1998, decrease receipts by about $510 million over the 1998-2003 period, and increase receipts by about $1.5 billion over the 1998-2007 period. Because H.R. 2676 would designate one of the provisions as emergency legislation—and thus, not subject to pay-as-you-go procedures—JCT estimates that for pay-as-you-go purposes the act would increase governmental receipts by $608 million in fiscal year 1998, decrease receipts by about $380 million over the 1998-2003 period, and increase receipts by about $1.75 billion over the 1998-2007 period.

In addition to its impact on governmental receipts, H.R. 2676 would increase direct spending by about $420 million over the 1998-2003 period and by about $950 million over the 1998-2008 period. One of the provisions, however, would not count for pay-as-you-go purposes because the legislation would exempt it from such consideration. Additionally, the legislation would extend the pay-as-you-go exemption to a provision included as a pay-as-you-go effect in CBO's June 19 estimate for TEA 21. On balance, for pay-as-you-go purposes, CBO estimates that enacting H.R. 2676 would increase direct spending by $440 million in fiscal year 1998 and by $480 million over the 1998-2003 period. Those totals include adjustments made to reverse the earlier pay-as-you-go estimate for TEA 21. Finally, implementing the legislation also would affect discretionary spending; however, this estimate does not include such effects.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of H.R. 2676 on governmental receipts and direct spending is shown in Table 1. The table includes those effects that are not subject to pay-as-you-go procedures. The costs of this act fall within budget functions 900 (net interest), 800 (general government), and 700 (veterans' affairs).

TABLE 1. Estimated Effects on Revenues and Direct Spending

	By Fiscal Year, in Millions of Dollars										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CHANGES IN REVENUES [a]											
Estimated Revenues	600	1,110	314	-487	-884	-1,164	-1,262	850	1,277	1,164	NA
CHANGES IN DIRECT SPENDING [a]											
Increase in the Interest Rate the IRS Pays Certain Taxpayers											
Estimated Budget Authority	0	45	57	61	64	67	71	74	77	81	85
Estimated Outlays	0	45	57	61	64	67	71	74	77	81	85
Proceedings by Taxpayers Against the IRS											
Estimated Budget Authority	0	2	5	5	5	6	6	6	7	7	7
Estimated Outlays	0	2	5	5	5	6	6	6	7	7	7
Veterans' Benefits											
Estimated Budget Authority	0	21	21	21	21	21	21	21	21	21	21
Estimated Outlays	0	21	21	21	21	21	21	21	21	21	21
Total Changes in Direct Spending											
Estimated Budget Authority	0	68	83	87	90	94	98	101	105	109	113
Estimated Outlays	0	68	83	87	90	94	98	101	105	109	113

NA = Not Available (JCT has estimated revenues effects through 2007 only.)

a. This table includes both pay-as-you-go effects and other changes in revenues and direct spending that would be exempt from pay-as-you-go procedures.

BASIS OF ESTIMATE

Revenues

H.R. 2676 would make numerous changes to the Internal Revenue Code. The major provisions affecting receipts are summarized in Table 2. The estimates were provided by the Joint Committee on Taxation.

TABLE 2. Estimated Changes in Revenues

	By Fiscal Year, in Millions of Dollars									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Exclude Minimum Distributions from AGI for Roth IRA Coversions	0	0	0	0	0	0	0	2,362	2,854	2,812
Clarify Deduction for Accrued Vacation Pay	593	839	997	456	308	156	163	172	180	189
Make Certain Trade Receivables Ineligible for Mark-to-Market Treatment	33	317	500	333	117	70	73	77	81	85
Change the Holding Period for Long-Term Capital Gains to 12 Months	35	611	-312	-335	-335	-337	-341	-347	-354	-362
Suspend Accrual of Interest and Penalties if IRS Fails to Contact Individual Taxpayer	0	0	-146	-174	-196	-209	-248	-431	-435	-439
Innocent Spouse Relief	-10	-131	-92	-74	-86	-121	-157	-204	-243	-288
Reduced Penalties on Unpaid Taxes During Period of Installment Agreements	0	0	-108	-136	-143	-152	-159	-167	-175	-185
Burden of Proof	-1	-231	-256	-269	-278	-297	-311	-327	-344	-360
Mitigate Penalty for Failure to Deposit Payroll Taxes	0	-47	-64	-64	-65	-66	-66	-67	-68	-68
Deductibility of Meals Provided for the Convenience of the Employer	0	-20	-33	-34	-35	-36	-38	-39	-40	-41
All Other Provisions Affecting Revenues	-50	-228	-172	-190	-171	-172	-178	-179	-179	-179
Total Estimated Changes	600	1,110	314	-487	-884	-1,164	-1,262	850	1,277	1,164

Direct Spending

Increase in the Interest Rate the IRS Pays Certain Taxpayers on Overpayments. Most of the projected increase in direct spending would result from a provision that would increase by 1 percentage point the amount paid by the federal government to noncorporate taxpayers who overpay their taxes. The provision would not take effect until next January. Based on our estimate of the amount of annual overpayments by taxpayers of individual income, estate, and gift taxes, CBO estimates that increasing the rate of interest by 1 percentage point would increase direct spending by almost $300 million over the 1998-2003 period.

Proceedings By Taxpayers Against the IRS. The act would increase the amount of penalties (payments covering attorneys' fees and administrative costs) and civil damages that courts could award to taxpayers in certain cases brought against the federal government. For penalties, H.R. 2676 would (1) lengthen the period of time over which taxpayers who substantially prevail against the IRS could recover administrative costs, (2) increase the hourly limit on the amount of reasonable fees that attorneys can collect in such cases, (3) permit the award of reasonable attorneys' fees to pro bono attorneys, and (4) allow taxpayers to recover reasonable costs and attorneys' fees in cases where an offer to settle the case is made, the IRS rejects the offer, and the IRS later obtains a judgment against the taxpayer in an amount that is equal to or less than the taxpayer's offer.

For civil damages, the act would (1) provide for the payment of up to $100,000 in civil damages to taxpayers in cases where a court finds that officers or employees of the IRS negligently disregarded provisions of the Internal Revenue Code or regulations, (2) provide for the payment of up to $1 million in civil damages to taxpayers in cases where an office or employee of the IRS willfully violates certain provisions of the Bankruptcy Code, and (3) allow individuals other than the taxpayer to sue for civil damages as a result of unauthorized collection actions. Courts could award the damages only after the taxpayer had exhausted all administrative remedies at the IRS. Under current law, taxpayers may receive payments for damages in cases where a court finds that an IRS officer or employee has recklessly or intentionally disregarded provisions of the Internal Revenue Code. The government would pay the additional penalties and damages from the permanent, indefinite appropriation for claims and judgments.

Although considerable uncertainty exists as to how the courts would determine and award penalties and damages under H.R. 2676, CBO estimates that the above provisions would increase direct spending by $23 million over the 1998-2003 period. This estimate assumes that broadening and increasing the amount of allowable penalties and lowering the standard for civil damages would result in awards of additional penalties and damages to taxpayers by the courts.

Veterans Benefits. Section 9014 would amend Title VIII of TEA 21 by raising rates for survivors and dependents' educational assistance programs by 20 percent. CBO estimates that the provision would increase annual outlays by $21 million. However, because TEA 21 exempted Title VIII from pay-as-you-go procedures, the annual amounts do not count for pay-as-you-go purposes and are not included below.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act specifies pay-as-you-go procedures for legislation affecting direct spending and receipts. The projected changes in direct spending and receipts that are subject to pay-as-you-go procedures are shown in Table 3.

The totals shown in Table 3 are different from the totals shown in Table 1 for three reasons. First, Table 3 excludes changes in direct spending from raising rates for survivors and dependents' educational assistance programs. That provision is exempt from pay-as-you-go procedures. Second, Table 3 includes the annual effects of exempting section 1102 of TEA 21 from pay-as-you-go procedures. CBO previously included the annual change in outlays from enacting this section in our pay-as-you-go estimate of TEA 21 (transmitted on June 19, 1998). Third, Table 3 excludes the loss of revenues estimated by JCT for a provision that H.R. 2676 would designate as emergency legislation.

TABLE 3. Estimate of Pay-As-You-Go Effects of H.R. 2676

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
Changes in outlays	440	476	-180	-221	-53	18
Changes in receipts	608	1,135	339	-462	-859	-1,139

CHANGES TO CAPS ON DISCRETIONARY SPENDING

TEA 21 established two new caps that apply to highway spending and mass transit spending. It also reduced the current cap on nondefense spending in 1999 and the current caps on other discretionary spending in 2000, 2001, and 2002. H.R. 2676 would further modify the caps on nondefense spending in 1999 and on other discretionary spending in 2000, increasing them by a total of $65 million over fiscal years 1999 and 2000. As shown in Table 4, the new caps on highway and mass transit spending now exceed the reduction in the caps on other spending allowed under the Balanced Budget and Emergency Deficit Control Act by $15.4 billion in 1999 through 2002. (The caps in the Deficit Control Act expire after 2002.)

TABLE 4. Changes in Caps on Discretionary Outlays

	By Fiscal Year, in Millions of Dollars			
	1999	2000	2001	2002
CHANGES IN CAPS ON DISCRETIONARY OUTLAYS [a]				
New Transportation Caps				
Highway	21,885	24,436	26,204	26,977
Mass Transit	4,401	4,761	5,190	5,709
Reduction in Other Caps	-25,144	-26,009	-26,329	-26,675
Net Changes	1,142	3,188	5,065	6,011

a. The table presents changes in the caps established in the Balanced Budget Act of 1997. Those caps were changed by TEA 21, but by different amounts for 1999 and 2000.

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